



Meeting with the Board of:
MIDLAND METRO LIMITED

Audit : year ended 31 March 2021

AGENDA

Group audit

- Management override of controls
- Overview of results
- Plan to group reporting opinion sign off

Key audit areas

- Revenue recognition
- Management override of controls
- Grants income
- Going concern

Summary of audit differences

Logistics to statutory audit sign off

Significant events and balances

KEY AUDIT AREAS

Improper revenue recognition

❑ Fraud risk due to improper revenue recognition

- ISA 240 presumed fraud risk that likelihood of improper revenue recognition exists in all entities. We determined this risk to exist in the calculation of deferred revenue as well as manual entries posted to revenue in the year.

- Work performed
 - We reviewed manual sales entries and credit journals to revenue account codes.
 - We reviewed management deferred revenue calculations and compared to our expectation of this balance.
 - We reviewed management's revenue recognition policy.

- No significant issues noted from our testing.

KEY AUDIT AREAS

Management override of controls

❑ Management override of controls

- ISA 240 presumed fraud risk management override of controls exists in all entities. We determined this risk to exist in processing of journal entries, accounting estimates and policies; and non standard transactions.

- Work performed
 - We gained an understanding of the journal entry control environment, determined journals criteria to test and followed through these journals to corroborative explanations and supporting evidence.
 - Gain an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to FRS 102. These were stock provisioning, doubtful debt provisioning and depreciation.

- No significant issues identified from our testing.

KEY AUDIT AREAS

Grants income

- ❑ The company recognised £206k furlough grant income from HMRC and £7,592k Light Rail Revenue Restart grant income from the DfT. Work was required to determine these non standard transactions were accounted for correctly.
 - Work performed
 - We agreed furlough sums recognised to HMRC correspondence and to cash received.
 - We agreed LRRG sums recognised to DFT correspondence, cash received and management's allocation of a £646k grant received that related to FY21 and FY22.
 - Inspected correspondence from HMRC and DfT to ensure sums recognised related to the period under review.
 - No significant issues identified from our testing.

KEY AUDIT AREAS

Going concern

- ❑ **Impact on going concern on disclosures in the financial statements and going concern assessment**
 - There is a risk that uncertainties brought by the Covid-19 pandemic are not adequately considered in the going concern assessment and disclosures in the financial statements by management.

 - Work required
 - Obtain assurance on the ability of the West Midlands Combined Authority to continue supporting MML by reviewing their statutory audit report and from discussion with the group auditor.
 - Obtain a letter of support from WMCA to evidence continued willingness to support.
 - Review of management assessment to establish level of financial support required.
 - Discussions with management and board on future outlook of the business.

 - No significant issues identified from our testing.

SUMMARY OF AUDIT DIFFERENCES

- Group audit materiality - £5.8m; trivial - £290k
- Statutory audit materiality - £115k; trivial - £3k
- 18 uncorrected adjustments that increase the profit or loss statement and balance sheet by £42k.
- 8 corrected adjustments that resulted in nil impact on the profit or loss statement and balance sheet.
 - 4 were balance sheet reclassifications.
 - The other 4 increased costs by £374k which was offset by the WMCA subsidy and project lifecycle reimbursements resulting in the nil impact.

LOGISTICS TO STATUTORY AUDIT SIGN OFF

- WMCA signed accounts
- Complete audit of going concern as outlined on going concern slide
- Letter of representation
- Audit report

FOR MORE INFORMATION:

Jon Gilpin
Partner
BDO LLP

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